

**MINUTES OF MAY 20, 2008, RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS
PENSION PLAN
DUE DILLIGENCE MEETING**

PRESENT

<u>Members</u>	<u>Others</u>
Michael Cross, Chair	Chuck Arrington, Trusco
Michele Evans	Carl Beveridge, Suntrust
Pat Evans	Steven Bland, Retirement Administrator
Henry Howard	Barry Bryant, Dahab Associates
Mark Jinks	Arthur Lynch, Retirement Specialist
Bruce Johnson (Alternate)	Dean Molinaro, Prudential
Chris Lockwood	Theresa Nugent, Communications Specialist
Shirl Mammarella	Lisa Powell, Prudential
Edward Milner	Michael Sahakian, Suntrust
Albert Tierney	
Laura Triggs	

CALL TO ORDER

The meeting was called to order at 8:35 a.m. on May 20, 2008.

MINUTES

Ms. Triggs made a motion, seconded by Mr. Tierney, to approve the April 16, 2008 minutes. The motion was unanimously approved (6-0).

Mr. Johnson arrived at 8:37 a.m.

FINANCIAL REVIEW

FINANCIAL AND ECONOMIC OVERVIEW

Mr. Bryant discussed the first quarter investment performance. It was a tough quarter on both a relative and an absolute basis. The fund was in the 81st percentile for the quarter and the 31st percentile for the 12-month period ending March 31, 2008. All equity classes fell in value. Only Fixed income, real estate, and cash had positive returns.

Mr. Howard arrived at 8:40 a.m.

Mr. Milner arrived at 8:43 a.m.

Mr. Bryant pointed out the time lags involved in collecting appraisals for the NCREIF benchmark. He explained the strong returns for the benchmark were probably for late appraisals coming in for the fourth quarter of 2007. Staff asked if the PRISA fund should have a similar time lag. Mr. Bryant explained why the PRISA fund had a shorter lag.

Staff asked about page seven of the Defined Contribution tab. The three-year return appeared to have an error.

Mr. Tierney pointed out the defined contribution funds were rather consistently beaten by the benchmarks. Mr. Bryant said it might be due to changing managers. Mr. Tierney asked if it could be due to asset allocation. Mr. Johnson referred to page two of that tab to see which funds had significant allocations. Mr. Bryant said defined benefit plans consistently outperformed defined contribution plans. The asset allocation was a primary reason. Mr. Molinaro pointed out the difference between a stable value fund and the Lehman Aggregate.

Mr. Tierney asked the board turn to page three of the Defined Benefit tab. The mid cap, small cap, and real estate had under performed. Mr. Bryant said the mid cap had a good three-year record, small cap was the subject of later discussion, and real estate was expected to self-correct because of the time lags in appraisals (discussed earlier).

Mr. Tierney asked if the funds were net of fees or gross? Mr. Bryant said they were net of fees.

Mr. Jinks asked if there was a comparison between Prudential real estate and the benchmark. Mr. Molinaro referred to page 49 of the Prudential quarterly report.

Mr. Cross asked about page twenty of the Prudential quarterly report. The PRISA quarterly and 12 month returns were the same, as were the benchmarks. These are probably errors.

INVESTMENT REVIEW – Disability (DAHAB & Trusco)

Mr. Sahakian discussed SunTrust's restructuring. They are creating boutiques to facilitate retention of portfolio managers and a more entrepreneurial spirit. Employees would be eligible for equity ownership of the subsidiaries they were managing. Mr. Arrington and his staff were expected to remain in place.

Mr. Sahakian reported the funds were 26.1% in fixed income that was near the rebalancing threshold. Some of the shortfall was in cash in the fixed income fund. About 1% was transferred from the large cap core product to the fixed income account.

Mr. Cross asked about the market values on page eight. The difference was accrued interest – interest earned but not yet paid. Mr. Johnson referred to page nine where the Accrued income was included.

Mr. Bryant indicated there were two different Rate of Return calculations. Sometimes they included cash and sometimes not. They were moving to include cash in all calculations. Mr. Arrington will work with Mr. Bryant to resolve differences.

Mr. Sahakian said Seix was overweighting treasuries. Quarter to date equity returns was 6.7% for the portfolio versus 7.7% for the Standard and Poors 500.

Mr. Arrington reviewed the target asset allocation for equities: 40% in 2003, 50% in 2004, and beginning March 2006 70%. The benchmark should reflect these weighting changes.

Corporate profit margins are at extreme highs. Emerging markets are driving up commodity prices to extremes. Trusco is positioned for a return to historic norms. Their strategy may be early. Page 14 of their quarterly report demonstrates they are not positioned for commodity and momentum stocks. Mr. Jinks asked for example. Mr. Arrington mentioned steel, coal, energy, and fertilizer. Trusco reports finding value in the technology area.

Trusco provided a handout of their performance by year vs. the S&P 500.

Mr. Cross asked how they were positioned for the next cycle. Mr. Arrington discussed their shifting of allocations between sectors as they go through the economic cycle.

Staff asked sited pages 12 and 16. Page 16 suggested value in technology areas. Page 12 showed small overweighting to technology. Mr. Arrington said a 25% overweighting of the technology sector [4% of the equity allocation] was significant for their style of investing.

Mr. Cross asked Mr. Bryant how Trusco was doing at stock picking. Mr. Bryant discussed how stocks with different financial strength would perform during different parts of a stock market cycle. The term “Junk Rally” was attributed to that time when quality companies underperform and speculative companies outperform. He suggested this might be such a time.

Mr. Sahakian discussed the fixed income portfolio whose attributes were highlighted on page 18.

INVESTMENT REVIEW – Pension Plan (Dahab & Prudential)

Mr. Molinaro began by saying Value outperformed Growth. Yet, breaking those categories down further, Core Value outperformed Deep Value and Core Growth outperformed High Growth. This means the outliers in both directions did poorly on a relative basis.

Barrow Hanley did poorly because of exposure to healthcare – specifically Wellpoint (WLP) and United Health (UNH). They were also exposed to Bear Stearns.

Munder's performance issues were attributable to exposure to regional banks and mortgage originators. As of May 19th Munder was down 2.65% year to date vs. 1.32% for the Russell 2000 Value index. The relative underperformance had gone from 360 basis points to 130. Munder was still down for the year but had closed the gap significantly. In reviewing their three-year performance the bulk of their underperformance was attributable to 2006.

Staff said the investment policy statement called for focus on three and five year periods. Did Mr. Molinaro favor one over the other? He did not. Munder does own REITS and regional banks.

Mr. Molinaro did discuss alternatives to Munder: Wells Fargo and Opus Capital Funds. Wells Fargo did have a weak 2006. Also, it is not a traditional value manager. They have exposure of up to 30% in international markets. They are also will to make significant sector bets. Most recently they had overweighted commodities and under weighted financials. Their fees are higher than Munder.

Michele Evans arrived at 10:06.

Mr. Johnson point out Opus had recently under performed.

Mr. Tierney asked about the plethora of under performing funds. Mr. Molinaro said Prudential was trying to build capacity in certain areas. Frequently the best managers will close their funds before they are too large and unwieldy. This happens much more frequently with small cap funds rather than large cap.

Mr. Lockwood asked Mr. Brant's opinion of Munder. Mr. Bryant said it could be monitored but they should be given a chance through year-end.

Mr. Tierney asked about the difference between Munder and Wells Fargo. Wells Fargo may be placed in a different style box – small cap core – than Munder that is in a small cap value. Wells Fargo is more opportunistic. Munder is a more traditional value manager.

Mr. Jinks suggested we review Munder quarterly.

Mr. Jinks asked about Oppenheimer being on the watch list. This is because of a manager change. T. Rowe Price is also in the watch list in the defined contribution plan. This too is for a manager change. Cooke and Bieler is on the watch list, however, for performance. They have had no exposure to commodities, materials, and energy.

Mr. Bryant reported Essex did poorly. They had exposure to the micro cap space, which did worse than small cap in the recent period.

Staff asked about Thornburg mid cap growth. Was there style drift? Recently seven of their top ten holdings were large cap and not mid cap. Mr. Bryant/Molinaro indicated retail funds showed more variation from benchmarks than did sub advised accounts.

Mr. Johnson asked how Barrow Hanley and Turner had performed since March 31 Mr. Mollinaro reported that it was a down quarter but both outperformed their benchmark.

INVESTMENT REVIEW – Bear Stearns

There was little exposure to Bear Stearns (BSC). Barrow Hanley did own some shares in the company. There were no Bear Stearns bonds. However, Bear Stearns was managing some fixed income accounts. Investment Management duties had since been moved to another company.

Mr. Milner left at 10:25AM

ADMINISTRATOR'S REPORT

PRUDENTIAL – Annual Statements

Ms. Powell reported the annual benefit statements were put together in three groups: Fire and Police, Full time Supplemental Plan, and Part Time Supplemental Plan. Samples were run and sent to the City of Alexandria for review. Supplemental statements were mailed on May 2, 2008. After a thorough review and approval, the Fire and Police Benefit Statements were sent to print. Regrettably some of the settings for the Part time Supplemental plan were left on during the runoff the Fire and Police statements. Mr. Cross was the first to notice this and contact staff and Ms. Powell. The statements were promptly rerun, checked, and mail on May 9, 2008.

It was suggested Prudential send all statements to the City of Alexandria for review and then they be returned to Prudential for mailing.

PRUDENTIAL – Labels and explanations on Prudential Website

Mr. Tierney questioned whether the assumed future years in the work force were consistent for Social Security and the City's plan. We discussed the number of decimal points used to report shares and share values on the statements and on the website. Ms. Powell said Prudential uses three decimal points on the statements which satisfies most people. The website uses four decimal points for those persons wanting the greater detail.

PRUDENTIAL – Review Retirement Calculations

Staff reported a review of retirement calculations had been done from plan inception through early 2007. Then review of the Supplemental plan's retirements and other projects had diverted attention elsewhere. Staff had very recently contacted Prudential to resume the review of retirement calculations. The supervisor responsible for facilitating the review was no longer with

Prudential. As soon as that position was filled staff and Prudential would work on a procedure to resume the reviews.

OLD BUSINESS

JOHN HORVATH

Mr. Horvath delineated three requests:

1. The ability to invest within other funds within the Prudential Platform
2. The ability to go outside Prudential's platform, and
3. The ability to have retired member on the retirement board

Mr. Tierney said retirees could run for a seat and members are welcome to attend all Board meetings. He also said meeting minutes were posted on line and could be sent to retired Police and Fire organizations.

Ms. Evans suggested an expanded e-mail list for communications of agendas and/or minutes.

Mr. Cross made a motion to:

Allow disability retirees with Retirement Income Accounts to roll over their accounts to Individual Retirement Accounts (IRAS).

Mr. Howard seconded the motion.

The motion was defeated (0-8).

Mr. Cross made a motion to:

Allow disabled retirees with Retirement Income Accounts to self direct up to 75% of their account balance

Mr. Howard seconded the motion.

The motion was defeated (0-8).

The Board discussed disability retirements. Mr. Tierney suggested information was needed to dispel rumors and misunderstanding.

Mr. Cross made a motion to:

Make a committee to review disability provisions including a change of the benefit calculation at conversion to retirement to include step increases from the time of disablement until normal retirement date.

Ms. Evans seconded the motion.

Discussion. Ms. Evans asked costs be e-mailed to board members.

Mr. Jinks asked staff to survey neighboring jurisdictions as to their practices and bring this to the July meeting.

Mr. Jinks made a motion to table the motion until July.

Ms. Evans seconded the motion.

The motion was approved (8-0).

ASSET ALLOCATION – Disability Income Plan

Staff referred to the handout labeled 5) b). History was provided. A motion was made in February to bring to the Board recommendations for increasing diversification to the Disability Income Plan. In April several options were discussed, some impacting only the Disability Income Plan, some involving the pension plan, and finally, all of the City of Alexandria's defined benefit plans. The later idea was subsequently removed from consideration.

Page one was the current situation. Page two depicted utilizing more of SunTrust's capabilities. Page three represented an extension of page two with a pooling of assets for the sole purpose of investing in alternatives. Page four illustrated a pooling of all assets. Page five was a pooling of all assets with specific investment managers identified.

Mr. Bryant was asked about his views. He commented he liked the idea of page three where the illiquid assets were isolated. Mr. Tierney asked if these illiquid assets were too complicated and if they would make a difference? Mr. Bryant said yes, their incremental returns historically had made a difference.

Mr. Jinks indicated he sought a conversation with Mr. Hoffman, the plan's outside counsel. Mr. Jinks would like to learn about the need to separate the pension and disability funds. The topic was tabled until July 10th.

Minutes show fiduciary responsibility

NEW BUSINESS

AGRICULTURAL INVESTMENTS -

Mr. Lockwood provided background by discussing ethanol prices, the need to plant more, and agricultural Exchange Traded Funds. He then asked Mr. Bryant to discuss agricultural investments. Mr. Bryant said there were two ways to view this: as an asset allocation or as a tactical investment for a money manager. If a money manager – be it large cap, small cap, etc. – were to elect to invest in agriculture that decision was best left to the manager. Mr. Lockwood suggested this was the right time for short-term investment. Mr. Bryant said the Board making a

long-term allocation to agriculture or commodities had some merits. However, as a short-term play it was outside the Board's area of expertise.

ADMINISTRATOR'S REPORT (CONTINUED)

Staff discussed handout 3) c) and 3) d). Ongoing quality control called for review of calculations. This process had uncovered calculation errors from several years ago. One group was five participants in the Excess Plan. Another Group was six participants who became disabled under the new plan but still had Retirement Income Accounts. Examples were provided as well as a total of the dollars involved.

The Summary of Activity report was distributed. Staff indicated certain expenses were included along with lump sums and benefits. Following each fiscal year staff will report to the Board the year's expense. A report might split out expenses by vendor as well whether they were paid by the plan or the general fund.

Staff discussed the Qualified Default Investment Alternative (QDIA).

Mr. Jinks made a motion to accept the Retirement Administrator's recommendation to not adopt a QDIA for the Retirement Income Account for Fire Fighters and Police Officers.

Ms. Evans seconded the motion.

Motion approved (8-0).

COMMITTEE REPORTS

BUYBACK COMMITTEE

Mr. Milner, Chair of the committee, had left the meeting. No report was provided.

VALUATION AND TECHNICAL CORRECTIONS COMMITTEE

Mr. Cross, chair of the committee, provided the report. The committee had not met since the last Retirement Board meeting. A meeting was anticipated very soon.

OLD BUSINESS

SEMINAR SCHEDULE & COMMUNICATIONS

Ms. Nugent provided background including Employee Benefit Research Institute and Congressional studies.

Ms. Nugent stressed the multifaceted approach to communications. The Pension Division endeavors to reach out to members with seminars, the website, and utilizing ICMA-RC's and Prudential's resources, etc.

It was suggested the City's employee newsletter feature the Plan's website.

Ms. Nugent discussed the seminar schedule and efforts to leverage resources. Also, employee comments are a rich source of feedback for our review and improvement.

Ms. Evans spoke of retiree health care. Mr. Howard and staff agreed that the Pension Division will post information on healthcare written by the Personnel Services Department on the Pension website. It should refer healthcare questions to the specialists in Personnel Services and/or provide a link.

NEXT MEETING

The next meeting is scheduled for July 10, in the City Council Workroom.

Mr. Cross said the agenda was full. He asked that Board members check their schedules for a meeting possibly as long as until 2:00 and staff make room reservations and look into lunch preparations.

ADJOURNMENT

A motion to adjourn was made by Mr. Jinks and seconded by Mr. Howard. The motion passed (8 -0).